FIRSTPOST.
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18

The Kingfisher Crashlanding

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Chapter: 1

The great explanation

‘For an airline, everything in India is high cost’: Mallya

FP Editors Nov 15, 2011

Blaming the challenging operating environment, Vijay Mallya, chairman of cash-strapped Kingfisher Airlines, said “everything is high cost for an airline in India.”

The airline has been struggling due to high operating costs, high fuel costs and severe undercutting of ticket prices and had to cancel more than 200 flights in the past week because of a severe cash crunch.

Speaking at a press conference, Mallya also said that the cancellation of 50-odd flights were blamed on “the wrong reasons” and admitted the issue could have been handled better by the company. “Mistakes happen and there is always room for improvement,” he said. He said the decision was primarily taken because the airline was not willing to fly on loss-making routes and reconfiguration of some aircraft to include more seats.

Kingfisher Airlines Chairman Mallya

He also pointed out the airline would from, now on, focus fully on full-service operations. The decision to exit Kingfisher Red, its low-cost carrier, was basically because it offered lower yields than full service operations. There were also no real cost benefits between the two set of operations.

Speaking on the payments to oil suppliers, he said the company had **repaid its full outstanding dues to BPCL and IOC.** Unsecured **outstanding dues to HPCL have also been lowered to Rs 40 crore from Rs 600 crore earlier.**

Earlier reports said oil marketing companies had threatened to stop providing fuel for the airline unless it paid its outstanding dues.

Fuels costs, because of the addition of exorbitant taxes, are very high for airlines in India, and account for nearly 50 percent of operating costs, according to some experts.

Mallya said *the airline had applied to the government for permission to directly import fuel and*

thus avoid sales tax.
He also said there was no question of a government bailout for the airline. ”We have not applied for any restructuring or asked banks to take a haircut,” he added, referring to the airline’s meeting with bankers today. “We are applying for working capital management.” The airline was also **looking to release Rs 1,000 crore in cash that was in the hands of lessors.**

Mallya denied that any bank (13 banks had lent to Kingfisher as a consortium) had asked the promoters to infuse fresh equity into the company. The promoters had invested Rs 3,593 crore in the airline, media reports said.

He also said *SBI Caps had been mandated to assess the financial requirements of Kingfisher and the immediate areas of focus would be addressing working capital issues and reducing the interest cost burden.*

Sanjay Aggrawal, CEO of Kingfisher Airlines, also pointed out the airline had actually outperformed other airlines at the operating profit level (which excludes the interest cost) over the past five-six quarters.

Kingfisher’s debt load is about Rs 6,500 crore. It current cost of debt is around 14 percent. Mallya tried to downplay the debt figure, saying the airline had nine years to repay the amount and that there were “other private carriers that have more debt than us”.

There was no mention of any asset sale to reduce debt at the conference either.

Kingfisher to launch Rs 2,000 cr rights issue by FY13

Reuters Nov 15, 2011

Kingfisher Airlines will launch a rights issue of up to Rs 2,000 crore ($398 million) either before March 2012 or in the beginning of the fiscal year that ends in March 2013, Ravi Nedungadi, chief financial officer of UB Group, the airline's parent, said on Tuesday.

Cash-strapped Kingfisher doubled its loss in the September quarter on higher fuel prices and operating costs amid investor worries about its ability to remain aloft in a fast-growing but loss-making industry.

Meanwhile, a defiant Vijay Mallya sought to assuage worries about the future of his airline but offered few new concrete measures for reviving the Indian carrier's finances after its quarterly loss had doubled.

Investors have grown increasingly worried over the carrier's ability to remain aloft in a fast-growing but loss-making industry, knocking the shares to an all-time low on Friday after it cancelled scores of flights during the week.

Kingfisher, named after its parent firm's best-selling beer, has also been late paying salaries.

Mallya, a flamboyant liquor baron who also owns a Formula One racing team, said Kingfisher had not asked banks to "take a haircut" but was looking for ways to reduce the interest cost on its $1.3 billion debt and add working capital.

He called on the government to allow foreign airlines to buy stakes in Indian carriers and said Kingfisher had applied with authorities to directly import fuel. Taxes make jet fuel in India 60-70 percent more expensive than the global average.

Mallya also stood behind Kingfisher's decision to stop flying unprofitable routes, which drew rebukes last week from the government and stranded passengers who had not been informed in advance.

"We cancelled flights not because we couldn't afford to fly," he said, adding that the situation could

have been handled better.
“We cannot, as a private company, afford to fly on routes that are heavily loss-making. We are not in the same arena as the national carrier,” he told a crowded media briefing that began nearly two hours late, referring to state-owned Air India.

Kingfisher shares ended 1.9 percent higher on Tuesday, defying a market selloff. The stock has lost 67 percent since the start of the year, shrinking its market value to $213 million.

“This industry needs some structural reforms. The impractical competition among players has driven down ticket prices and the high fuel cost is also hitting very badly,” said Sharan Lillaney, an airline analyst with Angel Broking.

Kingfisher has been asked by its creditors to raise $160 million in equity. Hemant Contractor, managing director of creditor State Bank of India, had said on Monday the airline was considering a proposal to sell real estate, but Mallya denied the firm was considering that course of action.

The carrier, which has never turned a profit since its launch in 2005, saw its fuel bill jump 70 percent in the September quarter from a year earlier.

While passenger revenue rose 9 percent, its revenue per average seat kilometre fell by 16 percent from a year even as its cost per average seat kilometre rose 8 percent.

Earlier this year, Kingfisher, India’s No.2 carrier by market share, cut its debt through a restructuring by issuing shares to 14 banks, including State Bank of India and ICICI Bank, the country’s two biggest lenders.

“While all airlines have taken a deep hit this quarter because of high fuel prices, Kingfisher is in such a bad shape that they need to look for funds to stay afloat,” said Neeraj Dewan, director at New Delhi-based Quantum Securities.

Despite passenger traffic on track to grow at roughly 17-18 percent, the Centre for Asia-Pacific Aviation (CAPA) expects Indian airlines to lose at least $2.5 billion in the fiscal year that ends in March, with state-owned Air India likely to account for more than half of that.

Air India has long been on government life support, and some in the industry blame it for pushing prices below cost.

“They continue to initiate below-the-belt pricing, but then everybody else follows it,” said Kapil Kaul, CAPA’s chief executive for the Indian subcontinent and Middle East.

Private carriers Jet Airways, the country’s largest airline, and budget operator SpiceJet, also reported losses in the September quarter.

Kingfisher has become one of the main casualties of high fuel costs and a fierce price war between a handful of airlines which, between them, have ordered hundreds of aircraft for delivery over the next decade in an ambitious bet on the future.

Airport charges are also rising, said Jasdeep Walia, an analyst at Kotak Securities.

“The cost environment is … becoming severe from all sides and you cannot pass it on to the market because of the state-run carrier’s pricing policy,” Walia said.

The government is considering lifting its ban on direct investment in the sector by foreign airlines,

according to media reports, which could provide a lifeline to Kingfisher if it finds an investor.

"In a market that is growing at 18 to 20 percent, there is no reason why anybody should be making losses," Sudheer Raghavan, chief commercial officer at rival Jet Airways told an analysts' conference call on Monday.

"At the end of the day, it is a highly competitive market and, this being a perishable product, there is always pressure to drop fares," he said.

We should have informed the DGCA: Kingfisher CEO

FP Staff Nov 11, 2011

Kingfisher Airlines is still a viable business and there is no dispute over its survival, its Chief Executive said on Friday, in an effort to dismiss widespread speculation that the cash-strapped airline was staring at bankruptcy.

Unable to raise funds from the equity or debt markets and fast running out of cash to pay for fuel supplies, Kingfisher, India's second largest carrier by market share, has cancelled several flights daily since Sunday in an effort to cut capacity and minimise costs.

"There is no question about the future or the viability of the airline," CEO Sanjay Aggarwal told CNN IBN.

Aggarwal said a hundred pilots have quit over the past months, not overnight.

"In any airline there is attrition going on. Over the last several months 100 pilots have quit, it's not phenomenon that happened in last two weeks or last 30 days," Aggarwal added.

When asked as to why the DGCA was not informed Aggarwal said, "We should have informed the DGCA."

The Economic Times newspaper reported on Friday that cash-strapped Kingfisher faces fresh trouble as some companies who have lent aircraft to the loss-making airline plans to take them back, while another newsreport said about 130 staff pilots have quit in the past few weeks.

Kingfisher, owned by liquor baron Vijay Mallya and controlled by the UB Group, had in September announced it was shutting its low cost business, Kingfisher Red, to focus on the premium model.

Kingfisher shares fell more than 17 percent in early trade and was down 14 percent at Rs 18.7 at 10:29 am.

Reacting to reports on Kingfisher, Captain Gopinath said the airline needed to focus on restructuring its model.

“The writing is on the wall..it is only low cost airlines which can survive ..The price point has to be affordable ..one needs to have the right model,” he said.

“Kingfisher has a great brand and extraordinary service and the largets network but when you have two brands in the same airline and the brand distinction is blurred then you are killing the parent brand,” he added, talking about Kingfisher Red.

Watch video

Chapter: 2

A sector in crisis

The spotlight is not on Kingfisher, it's on the aviation sector

FP Editors Nov 15, 2011

So much debate has been stirred up on the issue of Kingfisher Airlines receiving a possible bailout from the government.

Opinion has been strongly divided,with some experts like Rahul Bajaj of Bajaj Auto and Spicejet chairman Neil Mills strictly against a government bailout for the cash-strapped carrier.

"It is the private sector. Why should there be any bailout for a private air carrier? I do not see any logic why tax payer's money should be used to bail out a private company," Mills told media, according to The *Economic Times*.

In the other camp are *Firstpost* blogger Arjun Parthasarthy and Business Line commentator T V Mohandas Pai. Parthsarthy's argument is that our world lives in an era of bailouts and governments around the world, including in the US and India, have done this sort of thing so many times before.

"India bailed out many sectors hit hard by the market collapse in 2008, including the financial sector. The Reserve Bank of India will never let any bank fail in this country as seen in the case of GTB (Global Trust Bank). Satyam Computer, when it declared its fraud, was not abandoned to sink. The government got involved and made sure that it got taken over," he wrote on Tuesday.

Similarly, in an opinion piece in Business Line, Pai noted that apart from bad sector policies, the biggest factor to blame for not just Kingfisher's but the airline industry's woes "is the existence of a player who does not believe in rational pricing – Air India."

The bleeding state-run airline, in a bid to gain market share has been selling tickets at prices below cost, willing to take on huge losses and secure in the knowledge that the government will bail it out with loads of taxpayer money, Pai noted. Private airlines are fighting an unfair competitor and that is good reason for giving a helping hand to a troubled private-sector airline, he argued.

"If our industry leaders believe in the market economy, they should ask for Air India to be

allowed to shut down, not criticise private airlines' request for a bailout fund from bad policy" he wrote. "Private airlines are not failing because of mismanagement. Unfortunately, the debate is getting sidetracked because of the extravagant lifestyle of the owner of one airline."

He's right about that. In fact, the high-decibel debate about a possible bailout muffles the real issue at the heart of the matter – sector reforms.

Bailouts: a short-term fix

The question is not whether Kingfisher needs to be bailed out or not. If it were not for the fact that thousands of jobs would be lost if the airline failed, the issue would have been practically irrelevant. The question is what needs to be done to prevent another Kingfisher-like saga?

Bailouts are a short-term fix; without policy changes, you can be assured that another Kingfisher will come along, sooner or later. If the government really wants to help airlines, it needs to do more than provide relief for the here-and-now.

Here's what it needs to do.

One, operating costs must be lowered for the industry. This is an absolute must. A start must be made with lowering jet fuel taxes, which are abnormally high. High taxes on jet fuel makes fuel costs the largest component in an airline's total operating costs. Ditto for other state and central taxes.

As the Business Line article notes, the airline industry should not be made to pay for the losses oil companies make on selling diesel and kerosene at subsidised prices. Of course, that's easier said than done.

Two, state-run Air India should be stopped from charging below-cost ticket prices. It changes the rules of the game for the entire industry and other airlines simply cannot compete. They don't have benevolent sugar daddies (read government) who will compensate unviable pricing policies. The environment should not allow one non-profit making airline to drive other healthy ones into the ground.

Three, direct investment by foreign airlines must be actively considered by the government because that could help improve operating standards and services in the industry. More importantly, it can bring in much-needed cash for the private-sector players, many of which are groaning under the weight of debt-fuelled expansions.

Financial bailouts, either by lenders or the government, are short-term solutions. The bigger issue is of sector reforms. This is the perfect chance for the government to introduce some much-needed changes.

Kingfisher is not the only one under the spotlight here.

After Kingfisher: Why it's time to open up airline FDI now

R Jagannathan *Nov 15, 2011*

Beleaguered Kingfisher Airlines Chairman Vijay Mallya removed his rattling bowl from public view on Tuesday. "We have not asked for any bailout from government. We have not asked the government to dip into the taxpayer's money. We have never done it, we will never do it."

He should get a silent thank you note from Finance Minister Pranab Mukherjee, whose exchequer isn't overflowing with cash these days.

This doesn't mean Mallya won't pass the hat around. But, he says, all he wants now is some flexibility from banks with working capital arrangements. And a shoulder to cry on.

We saw plenty of sniffing and moping on Tuesday. Fuel costs are too high — over 50 percent of our costs, said Mallya.

At a news conference on Tuesday, he admitted that the cancellation of many Kingfisher flights last week was a public relations disaster. "Mistakes happen and there is always room for improvement," he said, adding that the airline wanted to stop flying on loss-making routes and reconfigure his aircraft to include more seats.

But the truest line he spoke related to his closure of Kingfisher Red — the low-cost carrier that ruined him. He said there was no real cost difference between the two sets of operations. *Firstpost* has always held that to be true (Read here and here for more on this).

If all success comes from an acceptance of reality, Kingfisher has got there at last. The real problem was Kingfisher pulled defeat from the jaws of victory when it bought bleeding Deccan. It went for scale and size and hubris when it was already the best brand in full-service flying.

In trying to do a balancing act between running a full-service airline and a cut-rate carrier, it fell between two stools.

But having heard Mallya's mea culpas, it's time to hang a part of the blame around the government's neck. There is no doubt the government has a flawed aviation policy that does nobody any good. Here's why.

Problem one is a wayward policy regime. You can't do much about fuel costs and airport charges, except regulate them. But you can do something about bringing in investors. Indian aviation's biggest problem is not that it can't get cheap fuel, but that it can't get cheap money from foreign airlines to invest in domestic carriers. The foreign direct investment (FDI) limit is 49 percent, but (surprise) foreign airlines can't invest in them. If airlines can't invest in airlines, what's the idea?

This rule was inserted after hectic lobbying by private airlines, and especially Jet, and possibly Air India, which were both afraid that the Tatas would enter the industry with Singapore Airlines. Now, a decade later, the same rule has come back to sting Jet and Kingfisher, both of whom are in need of huge FDIs to bail themselves out. A policy intended to benefit Jet will need modification to save Jet and the rest of the industry. Some discussions are already underway in government.

Problem two is Air India. As long as Air India is kept artificially afloat with periodic infusions of capital and loans, the aviation sector will always be a mess. When one player in the industry can use taxpayers' money to stay afloat and keep fares low, the rest of the industry will have to compete on its terms. A weak Air India will keep the rest of the industry weak, too.

The only way out is to privatise Air India – and this is where FDI will help the entire sector become healthier. Air India could sell a 51 percent stake to a foreign airline for survival. The only question is whether anyone will bite. No one wants Godzilla as partner. It's best to privatise it fully.

Problem three is infrastructure. Most Indian airports – barring Delhi and Mumbai – are in the public sector. They need investment and upgradation. But upgradation is going to push up costs for the airline business as landing, parking and other fees will need raising. These costs not only need to be contained, but there is a case for creating more airport capacity and competition even among airports. The likes of EasyJet and RyanAir offer low fares because they use less-used airports. This again calls for policy changes to attract FDI and competition.

The world over, the airline business is a mugs' game with few people making any real money from it. Airports and airlines are capital-intensive businesses. They are not for the faint-hearted. Only those with deep pockets can remain in this business.

It is time to invite foreign airlines and airport companies to share the losses of the Jet, Air India and Kingfisher. There's no national pride at stake in keeping all the red ink to ourselves.

After Kingfisher, it's Jet. Can anything save the airline industry?

FP Editors *Nov 9, 2011*

The hits just keep on coming for the Indian aviation industry. On Tuesday, Kingfisher Airlines was in the news because it planned to cancel up to 31 flights daily until 19 November because of a severe cash crunch and dwindling numbers of cabin crew and pilots.

Then on Wednesday, The *Economic Times* reported that Jet Airways, India's largest carrier by passengers, was planning to cut up to 10 percent of its workforce, or about 1,000 employees, because of high fuel costs and intense competition on key routes from low-cost rivals. While that plan might run into resistance (the airline ran straight into trouble the last time it tried to retrench people), the point to be noted is that it's far from alone in its operational woes.

And of course, there's little need to iterate the perennial problems of state-run Air India.

The dire state of the airline industry is evident by the fact that barring Indigo, pretty much all the main carriers – low cost and full service – Jet Airways, SpiceJet and Kingfisher are expected to post losses for the quarter ending September.

In a recent report, HSBC Securities estimated Jet Airways' second-quarter loss at about Rs 350 crore. The airline will announce its results on 11 November. Even Spicejet, which posted a loss in the quarter ending June, after reporting profits for nearly two years, is expected to extend its losing streak.

In fact, all three carriers are expected to post losses of about Rs 750 crore, according to a recent *Economic Times* report.

Ironically, the airlines' woes come against a backdrop of strong market expansion. Global aviation body IATA said recently that India's aviation market expansion was the strongest in the world, tripling in the past five years. It also predicted the Indian civil aviation market to register a compound annual growth rate of more than 16 percent between 2010 and 2013.

It doesn't require rocket science to understand why airlines aren't greatly benefiting from the expansion.

One, airlines pay high fuel costs and airport charges. Jet fuel accounts up to nearly 40 percent of an airline's operating costs. The price of jet fuel has climbed by nearly 45 percent from a year ago. Adding to the problem is the fact that states have slapped their own taxes on jet fuel. The average tax on jet fuel in India is 24 percent, second only to Bangladesh, which charges 27 percent. Throw in a sharp rupee depreciation (which increases the cost of crude oil imports) and it's easy to see why the cost of operations is relatively high for airlines in India.

Two, airlines like Jet and Kingfisher have been using flawed business models for their full-service carriers. While Jet has now said it will focus on low-priced offerings, Kingfisher has scrapped its low-cost Kingfisher Red operations.

Three, in a bid to capture market share, airlines are pricing tickets aggressively. As a SpiceJet official recently noted, some carriers continued to price their tickets below cost and offering 15-50 percent discounts on tickets as they try to undercut the competition. Irrational pricing adds to the burden of turning a profit.

Four, some airlines like Air India, Jet and Kingfisher are heavily burdened with debt, which they mostly took on to purchase aircraft. Air India's debt is a crippling Rs 42,570 crore, while Jet's is about Rs 13,400 crore, according to a recent *Firstpost* article. Kingfisher's debt totalled Rs 6,000 crore.

Five, maintenance costs for airlines are quite high. The country has very limited maintenance and aircraft repair operation centres and the few centres we have are expensive, again because of high taxes. Maintenance costs account for about 13 percent of total operating costs for an airline.

Given these challenges, it's not surprising that foreign investors have been busy dumping stocks in the aviation sector in the past quarter. According to Business Standard, foreign investor stake in Jet Airways has dropped from 5.7 percent in the quarter ending June to 4.6 percent in the quarter ending September.

Foreign investment in Kingfisher Airline, already low at 3.02 percent dropped further to 2.1 percent during the same period, while in SpiceJet, foreign investment declined from 10.16 percent to 6.17 percent at the end of September.

The state they are in now, India's airlines are unlikely to attract foreign investment even if the sector is thrown open. For now, the sector seems destined to fester in its own crisis.

Airlines and experts pitch for FDI, but will govt relent?

Arlene Chang Nov 16, 2011

Even as India's private carriers lug their debt around and scratch their heads pondering whether or not the government will allow foreign direct investment in the aviation sector, experts say it is probably the best way to pull out the debt-ridden carriers from the red and sustain thesector's growth

As the Civil Aviation Ministry sits on the recommendation of the Department of Industrial Policy & Promotion (DIPP) to allow foreign carriers to pick up stake of up to 49 percent in domestic airlines, the country's two largest carriers reported bleeding losses.

India's largest private air carrier Jet Airways last Friday posted a net loss of Rs 713.6 crore for this year's September ended quarter, against Rs 12.4 crore in the year-ago period. Second-largest carrier, Kingfisher Airlines, reported a net loss of Rs 469 crore ($93 million) for the quarter ended 30 September — double of the Rs 231 crore loss it recorded in the year-ago period.

"For a Jet airways operation, Rs 1/litre up or down changes bottom line by Rs 160 crore, while a $1 movement per barrel changes my bottomline by $10 million," said M Shiv Kumar, senior VP of finance for Jet Airways, adding, "The impact is huge."

"Everything is high cost for an airline in India," Vijay Mallya, chairman of cash-strapped Kingfisher Airlines, said during a press conference on Tuesday.

While experts concur with both managements — of Jet and Kingfisher — who put the blame for their losses on the vulgarly gyrating rupee, high fuel costs and an intense price war, they also said that opening up the sector to investment by foreign airlines would not just help the airlines but the sector's growth.

Under the current rules, FDI up to 49 percent is allowed in aviation companies, but foreign airlines are not allowed to participate directly or indirectly in the equity of a domestic airline, which means they cannot own the airline or run it according to their terms — a restriction that has discouraged investment in the sector.

Ashvin Parekh, analyst at Ernst&Young, told CNBC, "When there is an economic downturn or when a certain sector goes through difficulties, the policy and banking response — if done in a collective and constructive manner — can restore values."

According to civil aviation expert, Kapil Kaul, there is no logic in denying FDI in aviation.

"We are the only country in the world that distinguishes between foreign institutional capital and foreign airline capital," Kaul told CNBC, adding, "Excluding foreign airlines from FDI is no longer an argument the government can support."

While aviation minister, Valayar Ravi's ministry is agreeing to allow foreign airlines to pick up stakes in Indian carriers, it is insisting on a 24 percent cap, according to *the Economic Times*.

However, the industry ministry and analysts say 24 percent may not be good enough.

Justifiably, a 24 percent stake will not give an investor enough say in the functioning of the company and why would an investor put his money in a sector where operational costs are already touching the sky and where it will have no say to help improve the situation.

"The Civil Aviation Ministry has recommended 24 percent (for FDI by a foreign airline), which is as good as not having a policy," Kaul says.

Mallya, chairman of debt-laden Kingfisher Airlines, minces no words in his pitch for FDI.

"Aviation is a capital industry. It needs global equity and to get that equity, the industry needs FDI by strategic investors," he said on Tuesday. "I am not hesitant in any way in saying FDIs should be permitted and hope the govt will consider this seriously."

So, while airlines have to figure how they need to keep their operating costs in check and simply survive, the government needs to weigh why airline FDIs should be allowed to boost a limping sector — and fast.

Watch video

Chapter: 3

The king of turbulent times?

DGCA issues show cause notice to Kingfisher; 80 flights cancelled in 3 days

PTI Nov 10, 2011

The aviation regulator Directorate General of Civil Aviation (DGCA) has sent a show-cause notice to Kingfisher Airlines (KFA) after it cancelled at least 80 flights over the past three days saying it was taking some of its aircraft off flight schedules to add business class seats on them. The airlines said that it was cancelling 50 flights everyday from Wednesday.

“We have issued a notice to them under Rule 140(A) of Aircraft Rules,” DGCA chief EK Bharat Bhushan said.

In the notice issued today, the DGCA has asked the airline to show cause why it had not taken the regulator’s prior approval to curtail its flight schedules as required by the rule. Rule 140(A) of the Aircraft Rules say that an airline has to obtain DGCA’s concurrence before starting a new route or discontinuing a flight at least a week before taking such a step.

The DGCA also asked the Vijay Mallya-owned carrier on the steps it has taken so far to take care of the passengers booked in the flights cancelled in terms of returning their airfares, accommodating them in their alternate flights or providing them alternate modes of transportation.

The aviation regulator, through the notice, asked Kingfisher whether it had kept in view the provisions of Civil Aviation Requirement on the “facilities to be provided to passengers in case of denied boarding, flight cancellations and flight delays”.

The airline, which cancelled about 30 flights today, has said in a statement that “for a limited period, these flights are either being cancelled or clubbed with other Kingfisher flights in a well-controlled and pre-determined manner.

“In continuation of our earlier announcement to focus on the full-service market, KFA has initiated reconfiguration of its aircraft.”

While three oil companies – HPCL, IOC and BPCL, have stopped granting credit to Kingfisher for lifting jet fuel and put it on a cash-and-carry payment mode, Kingfisher CEO Sanjay Agarwal had last night said that the situation was much better now.

“Our unreserved exposure (vis-a-vis the oil companies) now is not even 10 per cent. It is much better than before. On top of this, the oil companies also have corporate guarantees from the UB Group, which owns the airline.”

Kingfisher has suffered a loss of Rs 1027 crore in 2010-11 and has a debt of over Rs. 7057 crore.

Aviation sources said the airline has grounded eight of its leased turboprop ATR aircraft. Airport operators, too, are putting pressure on the airline to clear their dues relating to airport and other charges.

Watch Video

Kingfisher cancels more flights. What will Mallya do next?

FP Editors *Nov 15, 2011*

Things just seem to be getting worse on the operational front for Kingfisher Airlines. On Tuesday, *Mint* reported that the cash-strapped airline had been forced to extend flight cancellations to nearly another month.

Flight cuts were initially scheduled to run until 19 November, but the newspaper said those cuts had now been extended until 15 December. The airline will operate about 290 flights a day compared with about 345 earlier, which will only increase the pressure on ticket prices.

Chairman Vijay Mallya is expected to hold a press briefing today to announce the airline's second-quarter financial results. We'll probably find out what's next for the airline then. Yesterday, there was a board meeting to discuss, among other things, a fresh infusion of equity from the promoters and plans to halve its Rs 6,000 crore debt through selling property and entering into sale-and-lease back agreements for its aircraft. No word on those as yet.

Kingfisher's shares ended 10 percent higher at Rs 21.40 on Monday over those plans, but a lot more action will be needed to put the stock — and the airline — on a sustainable growth path.

You can bet on one thing though: the 13 banks that formed a consortium to help the airline earlier with a debt restructuring deal will be having some pretty sleepless nights.

According to Business Standard, they're saddled with an exposure of about Rs 7,000 crore, and they're in no position to just walk away. SBI, with an exposure of about Rs 1,500 crore, is the biggest lender to the airline.

The Economic Times reported that at an earlier meeting last week, banks had decided that they would take control of the cash flow of Kingfisher Airlines by funneling the airline's earnings into a bank account at one of the lenders.

It's not just the bankers, oil suppliers and passengers who are agitated with what's happening at the airline, even airport authorities are losing patience.

According to the newspaper, Delhi and Hyderabad Airports have warned the airline that if it didn't pay up to 50 percent of its outstanding bills to the airport authorities, they would place the airline on "cash-and-carry" mode -– pay airport charges every time it lands and takes off. Failure to do so could result in grounding of flights for Kingfisher, already in flight cancellation mode and will make a bad situation even worse for passengers.

Kingfisher owes Rs 55 crore to Delhi Airport and about Rs 25 crore to Hyderabad Airport, according to *The Economic Times*.

Still, it must be remembered that while a lot of the mess that Kingfisher Airlines finds itself in is self-induced because of a bad business model, there are some issues that are related to the sector as well. These include high operating costs, high fuel costs and severe price wars that have led to tickets being sold below cost; they affect even the other airlines such as Jet Airways, SpiceJet and Indigo.

With Kingfisher teetering on the edge of bankruptcy, there's enough pain in the system to prompt the government into making some gestures towards easing some of these burdens. There is growing speculation the government may be more willing to consider direct investment from foreign airlines in the sector (currently they are barred from doing so), and lowering taxes on jet fuel, which are believed to be among the highest in the world.

If that happens, at least something good will come out of this crisis.

Kingfisher Airlines' losses double to Rs 469 crore

FP Staff *Nov 15, 2011*

Cash-strapped Kingfisher Airlines on Tuesday reported a doubling of its loss in the fiscal second quarter on higher fuel prices and operating costs, amid investor worries about its future.

The company said it has suffered "substantial losses" and its net worth has been eroded.

Kingfisher has been asked by its creditors to raise $160 million in equity and the carrier is considering a proposal to sell real estate to help pave the way for a debt restructuring, a banker said on Monday.
Kingfisher

The carrier's net loss in the quarter ended 30 September rose to Rs 469 crore ($93 million) from Rs 231 crore in the year-ago period, the company said in a statement to the stock exchanges. Aircraft fuel expenses in the quarter rose 70 percent to Rs 817 crore, it said.

The carrier has become one of the main casualties of high fuel costs and a fierce price war between a handful of airlines which, between them, have ordered hundreds of aircraft for delivery over the next decade in an ambitious bet on the future.

Kingfisher Airlines: the brand that never was

Anant Rangaswami *Nov 14, 2011*

"According to research, while 35 percent of passengers choose an airline on the basis of punctuality, pricing comes second at around 30 percent," says Hermann Behrens, CEO, Brand Union, Middle East.

"However, this also means that 35 percent of the decision making is influenced by other factors. This is where branding comes in," Behrens adds.

Behrens was talking about the global industry, not about India, and about both international and domestic airlines, not just domestic —and the 35 percent influence that the brand plays may not be half as important in India and domestic flights.

"For the traveling public, price is paramount in choosing a carrier. Due to the Internet and round-the-clock search capability, airfares are fully transparent to the public and travelers are choosing the lowest price option. Air travel is now a commodity business, and legacy carriers will have to adapt further to a low-cost/low-fare environment in order to survive. Even business travelers, who have been less price-sensitive, are resisting fare increases. The only premiums that travelers are willing to pay for are time-of-day and direct flights, not the brand," says a report.

Things are not made easier by the generations-old resistance to 'wasting' money and financial prudence. Nothing says it quite like this Maruti Suzuki commercial extolling the superior mileage of their cars.

The two major factors that influence choice of airline are punctuality and price.

As far as punctuality is concerned, IndiGo 'appropriated' the virtue with their commercial 'On time is a wonderful thing'.

In actual performance, for example, Go Air and IndiGo were the best, according to the latest data from DGCA. When it comes to cancellation of flights, Kingfisher's performance has been poor,

even before the current crisis kicked in. In August 2011, for example, only Air India domestic had a record that was worse than Kingfishers, with IndiGo being the best performer.

As far as price is concerned, Kingfisher had never claimed (nor tried to be) the cheapest – and that might be working against the airline. For example, if one wanted to fly tomorrow to New Delhi from Mumbai, out of 127 flights that one could choose from, only six of Kingfisher's flights are available for less than Rs 10,000 (one way).

Kingfisher got Maslow's hierarchy of needs horribly wrong. "Maslow's hierarchy of needs is often portrayed in the shape of a pyramid, with the largest and most fundamental levels of needs at the bottom, and the need for self-actualization at the top," says *Wikipedia*.

In the case of airlines, especially when it comes to short-haul, domestic flights, the most fundamental needs are pricing and punctuality. The 'luxuries' such as great food, more comfortable seating, extra leg-room and in-flight entertainment come into play only AFTER these two needs are met. How much of a premium will a passenger pay for extra leg-room for a 90 minute flight? How often, in a domestic flight, can one see an entire movie?

Unlike the premium investments made in brands such as Nike and Apple, to name just two, one does not get an external 'badge' that one can show off after paying a premium on a Kingfisher Airlines flight. The badge is 'temporary' and 'transient', with a life and value limited to the time spent in the aircraft or at the lounge. With the cost consciousness of the Indian consumer that the Maruti Suzuki commercial demonstrates, the premium that one would attach to the brand becomes questionable.

IndiGo has successfully created a brand – after meeting the base requirements – and are in a position where they are the preferred choice in a commoditised low-cost carrier market.

Kingfisher's got the premium positioning correct. But they've got to realise that, in order to milk the positioning and command a premium, they need to get their act together on price, punctuality and cancellations. Once this is done, it's another task to get the premium right. How much of a premium will one pay for what, essentially, is a commodity product, for some extras, without the consumer feeling that he's wasting money?

The moment consumers question premiums that brands charge, brand custodians need to worry about the strength of their brand.What motivates consumers to pay a premium on Kingfisher today? Consumers will pay a premium when no seats are available on cheaper airlines – but that's a demand-supply equation, not a brand premium.

And when consumers pay a premium because they have to, it's not a transaction that makes them happy with the brand or the experience. To Indians, it's a loud reminder of the shortage economy pre-1992.

IndiGo and Go Air, too, may be faced with a diametrically opposite problem. While they've got their act right on price and punctuality, they need to start delivering beyond the basics – and moving towards a premiummess, even if it's at the low-cost end of the business. Give consumers reasons to fly these brands when all else is constant, that's their challenge. Stay low-cost and cheap and punctual, but, as Indian consumers keep demanding, give them more.

Is it Kingfisher's duty to fly on loss-making routes, asks Mallya

Agencies Nov 12, 2011

Chennai: Kingfisher Airlines today cancelled eight outbound flights from here, including services to Delhi.

Flights to Bangalore, Vishakapatnam and Kochi were also cancelled, airport sources said. The airline, which is promoted by industrialist Vijay Mallya, is facing serious financial crunch leading to flight curtailment in the past few days.

Meanwhile, Kingfisher chief Vijay Mallya qestioned on Saturdayquestioned whether it was the carrier's duty to fly loss-making routes. Mallya tweeted, "Is it Kingfishers duty 2 fly on loss-making routes when State Governments tax heavily? Or should we be financially prudent and fly profitably? Every Government has gone out of the way to support airlines and connectivity. In India airlines are over taxed and over charged. Wonder why?"

The airline's stock plunged to an all-time low to 19.1 percent in early trading on the Bombay Stock Exchange to a record low before recovering to 9.45 percent.

Media reports suggest that the government had decided in principle to allow foreign airlines to own up to 24 percent of Indian carriers, a move that could throw a lifeline to Kingfisher and its struggling rivals.

The report claims that the matter would be put before the cabinet of Prime Minister Manmohan Singh in the next four weeks.

Late on Friday, Kingfisher said it was dropping unprofitable routes and speeding up a fleet reconfiguration, which would see its daily schedule of flights drop to 300 from 340. It recently said it was exiting the low-fare segment of the business.

The carrier, whose share price has dropped 70 percent in 2011, bringing its market capitalisation below $200 million, also said on Friday it "does not see any risk to its future or long-term viability".

Aviation Minister Vayalar Ravi said he would approach the finance minister to seek emergency bank assistance for troubled airlines.

Watch video:Is it our duty to fly on loss, asks Vijay Mallya

Kingfisher Airlines: the ‘good times’ are clearly over

FP Editors Nov 8, 2011

The good times seem to have finished for Kingfisher Airlines’ customers and employees. Well, to be honest, it was over a while ago.

On Monday, the airline cancelled 12 flights from Delhi and several more across the country due to a shortage of cabin crew and pilots, reported The Times of India. The move followed four cancellations on Sunday.

The cancelled flights included those to Jaipur, Bangalore, Amritsar, Mumbai, Chennai, Hyderabad, Pantnagar and Bagdogra.

Even worse, *Mint* reports the airline will cancel 31 flights every day for the next 12 days. The newspaper said the Mumbai-based carrier decided to cancel 27 domestic flights on key routes covering the cities of Delhi, Mumbai, Bangalore, Chennai, Hyderabad, Kolkata and Kochi, besides four international flights to Bangkok.

There are two reasons why this is happening.
One, the airline’s staff have been deserting in droves, which means Kingfisher now has to adjust its flight operations with a dwindling number of pilots and cabin crew.

Media reports said several employees had lost faith in the struggling airline’s ability to survive and are failing to report to work because they are busy finding other jobs. Indeed, a few weeks earlier, there were reports the airline had delayed in making salary payments for August and September.

Two, the airline has been facing severe fuel shortages because of its inability to pay its bills. State-run oil firm Hindustan Petroleum, the largest fuel supplier to the airline, temporarily suspended fuel supply to Kingfisher for the second time in four months in October because the airline had not cleared a bill of Rs 130 crore.

In July also, the oil marketing company briefly stopped fuel supply before restoring it again after the airline paid Rs 10 crore.

According to an earlier report, the airline requires about 45,000 kilolitres of fuel a month. HPCL has a daily billing of roughly Rs 7 crore, while Indian Oil Corporation (IOC) and Bharat Petroleum supply fuel worth about Rs20-22 lakh per day and Rs 5 lakh per day, respectively.

There are two possible consequences of these flight cancellations.
One, fewer flights from Kingfisher could cause airline fares to rise during the peak travel season (October-December). That will be a big hit to travellers because fares are already hitting highs over rising demand.

According to an India Today report, the cost of a Delhi-Mumbai one-way flight on Jet Airways, for instance, was a whopping Rs 18,184-Rs 28,188 for November 6. Ditto for flights on December 29: A one-way flight on the same route will cost passengers a steep Rs 30,000 or so. If Kingfisher's flight cancellations continue beyond November, they could definitely push up overall fares.

Two, the struggling air carrier is looking more and more likely as a takeover candidate, but the question is, who will take it?

Currently, the airline, weighed down by heavy debt, is in talks with bankers to reduce the high interest rates on its $1.2 billion debt. Chief financial officer Ravi Nedungadi said in a statement recently the carrier was attempting to swap high-cost rupee borrowings with lower-cost foreign debt.

As part of efforts to restructure and cut costs, the airline has already scrapped its low-cost Kingfisher Red airline business. It reported a net loss of Rs 263.5 crore for the June-ending quarter.

A couple of months ago, Kingfisher's auditors had also pointed out the company's "networth was completely eroded" and its chance of remaining in the sky depended on more cash being pumped into the airline. *Firstpost* had reported that the cash-strapped airline may need Rs 3,000 crore to Rs 4,000 crore to get itself back on its feet.

At this point, given the airline's dwindling operations, that looks like a lofty target. Either it finds the money pronto or face the inevitable: the demise of Kingfisher Airlines.

Kingfisher Airlines: is it time to bid adieu?

FP Editors Nov 11, 2011

Is this the end for Kingfisher Airlines? Sure, seems like it.

On Friday, *The Economic Times* reported that lessors of Kingfisher Airlines plan to take back aircraft leased to the airline amid growing doubts about the future of the company and its strategy. If that happens, the airline will struggle not just with fewer pilots but also fewer aircraft, which could soon lead it to shutting operations altogether.

The Times of India also reported that about 130 pilots had quit the cash-strapped airline in the past few weeks on worries about the future and salaries.

The growing travails of the struggling carrier have dominated newspaper and TV headlines this week. On Tuesday, the airline announced that it was cancelling 31 flights daily until 20 November because of a severe cash crunch and large-scale desertion by staff, which had led to a drastic drop in the number of pilots available for the airline. That was after it cancelled some more flights previous weekend. Reports said the airline was also, once again, unable to pay its fuel bills on time.

Both stories sent airline ticket prices soaring. According to a *CNBC TV-18* report, prices for a one-way Delhi-Mumbai flight soared to as much as Rs 23,000. Before Kingfisher's flight cancellations, the average economy fare on this route cost between Rs 6,000 and Rs 7,000.

Chairman Vijay Mallya told *CNBC TV18* in an interview that "the decision to reschedule, cancel and rationalise flights were necessary to cut losses and enhance the airline's revenues". But it might already be too late for that.

The move to cut flights didn't upset only passengers; on Thursday, the Directorate General of Civil Aviation (DGCA) issued a show-cause notice to Kingfisher asking why it had not taken the regulator's prior approval before curtailing its flight schedules as required by the Aircraft Rules, 1937. The airline has yet to respond to the aviation regulator.

SOS to lenders

Clearly, unless the airline gets a financial lifeline from somewhere, it's difficult to see it surviving for too long in its current form.

The airline, burdened by debt of Rs 6,500 crore, is currently unable to access funds from either banks or the equity markets even as it loses about Rs 3-4 crore a day, according to *The Economic Times*. Indeed, in late September, research firm Veritas Invest said Kingfisher Airlines was already "bankrupt", according to a *Firstpost* story. The research firm also said the airline would need Rs 3,000-4,000 crore to get back on its feet.

Airline officials might insist the company will not shut down, but really, given its dire situation, how does it propose to survive without that kind of money?

Unless it is able to negotiate a hefty last-minute deal with lenders (which seems extremely unlikely) Kingfisher is left with only two options: shut down or be acquired by another airline.

Given its huge debt load, Kingfisher isn't a great acquisition target right now. More importantly, most other local airlines (barring Indigo) in the country are also struggling with tough times brought on by rising fuel prices and intense price wars, so they're in no position to acquire rivals either.

A foreign airline can't come to the rescue just yet because Indian regulations don't permit that. India allows 49 percent foreign direct investment (FDI) in airline companies, but foreign airlines are not allowed to invest in the sector currently.

So what can the 'King of Good Times' do? Maybe decide that it's time to just bid adieu.

Watch video

Chapter: 4

Creditor Crisis

RIL denies report of buying stake in Kingfisher

Reuters Nov 16, 2011

Mumbai: A spokesman for Reliance Industries denied on Wednesday a newspaper report the energy major was in talks to buy a stake in cash-strapped Kingfisher Airlines.

The *Hindu Business Line* newspaper had reported that Reliance might make a financial investment or pick up a stake through a preferential offer by the carrier, which could be followed up by an open offer to public shareholders.

Citing an unnamed person close to the airline, the paper said Reliance was understood to have engaged a merchant banker to carry out due diligence of the carrier.

Ravi Nedungadi, chief financial officer of UB Group, the airline's parent, had said on Tuesday it had been approached by strategic investors.

An official with one of Kingfisher's lenders had also said the carrier's chairman, Vijay Mallya, was talking to a potential strategic investor.

Kingfisher, which reported a September quarter loss of 4.69 billion rupees ($92 million) on Tuesday, cancelled scores of flights last week as it abruptly shut some routes. It has also been late paying salaries.

Kingfisher Airlines: Will banks throw a lifeline, again?

FP Editors *Nov 14, 2011*

After the high drama on Friday and Saturday, it looks like the focus of the Kingfisher Airlines saga this week will shift to the banks who lent the airline money as well as converted part of their debt into equity.

Will they ride to the rescue of the airline a second time around? They'll certainly need a lot of convincing, for sure.

At the request of the finance ministry, the 13 banks that have lent to Kingfisher are expected to meet the airline's management on Tuesday. However, these banks have made it amply clear that no more funds will be forthcoming unless the airline comes up with a viable business plan for survival.

To that end, according to an Economic Times report, the board of Kingfisher will meet on Monday to consider a proposal to cut debt by half by selling property, converting loans from its parent company into equity and changing the terms under which it leases aircraft.

The newspaper said the airline planned to sell Kingfisher House, its headquarters near the Mumbai domestic airport and other real estate. The management claims its plans will reduce debt to Rs 3,000 crore from Rs 6,500 crore.

Employee layoffs are also being considered. "Tough measures have to be taken even if it means manpower reduction for the sake of the remaining 7,500 employees," chief executive officer Sanjay Aggarwal told *The Economic Times*. That won't be so hard, given that staff is already leaving in droves.

Armed with these plans, Kingfisher plans to ask banks for up to Rs 500 crore in working capital to buy fuel and pay salaries.

Will the banks bite?

It remains to be seen whether these plans will impress banks. After all, they've been here once before. In March, 13 banks came together under a debt-restructuring plan for Kingfisher and converted Rs 1,300 crore of their total exposure of Rs 7,000 crore into equity.

Banks agreed to the debt-into-equity conversion to reduce the airline's interest burden, and the conversion was done at Rs 64.48 a share.

Another Rs 4,000 crore of their exposure remains in the form of term loans. The consortium, led by State Bank of India, also included ICICI Bank, IDBI Bank, Punjab National Bank, Bank of Baroda, UCO Bank, Oriental Bank of Commerce and State Bank of Mysore.

State Bank of India has the largest exposure to Kingfisher Airlines, of about Rs 1,500 crore, while ICICI Bank's exposure is much lower — about Rs 400 crore.

That restructuring certainly didn't meet with much success. On Friday, Kingfisher's airlines dropped to Rs 19.6, a lifetime low as investors' fears escalated about the future of the airline.

So, it's extremely unlikely that banks will rush again to the rescue, unless they're certain that this time will be different. Which is why they now want the UB group, the parent company of the airline, to bring more money to the table as well. "The UB group must bring in Rs 400 crore in the form of equity from its other businesses such as spirits, which are doing reasonably well," SBI chairman Pratip Chaudhuri told Mint. The promoters had committed to bring in Rs 800 crore of which they have only brought in only half so far, Chaudhuri added.

Opposition to government bailout

Meanwhile, opposition to any government plans to help Kingfisher, grow. The BJP and CPM made it clear they were opposed to any such plans.

Kingfisher's rivals, at least on the outside, are secretly rejoicing. Rival Jet Airways said it would increase the number of full-flight service flights to attract passengers affected by the Kingfisher cancellations, according to *Business Standard*. Kingfisher cancelled more than 200 flights the past week. There are reports that more flights might be cancelled as the gasping airline tries to change the configuration of its aircraft, which means that up to three aircraft will need to be grounded at any point in time.

For now, the prognosis does not look good. Even if Kingfisher does get an injection of funds, it won't be the end of its problems. Getting money is one thing, but taking off the ground successfully will be an entirely different challenge for an airline that, barring the quarter ending December 2006, has never made a net profit in its listed lifetime.

‘Kingfisher chairman will sort things out’: Yes Bank CEO

FP Staff Nov 14, 2011

Yes Bank is one of the banks with a small exposure to troubled Kingfisher Airlines. Rana Kapoor, founder managing director and CEO, spoke to journalists on the sidelines of the World Economic Forum (WEF) India Summit about the idea of banks bailing out the airline, as well as other concerns plaguing the banking sector.

Here are edited excerpts:

What is your exposure to Kingfisher Airlines? Do you think banks should bail out the company?

Rana Kapoor: We do not have any significant exposure to Kingfisher. But we must understand that airlines is not an easy business. It (the problems) is not to do with an individual company but the sector as a whole. The government will look into the fuel rates and costs of the sector, as airlines are a public utility. The Kingfisher chairman is committed to the company’s cause. I am sure he will sort it out.

Rana Kapoor

What is your exposure to the power sector and what are the concerns?

RK: Our exposure to the power sector is minimal. But I can say it (the current troubles affecting the sector) is a temporary glitch. The Indian power sector is strong and must be growing for the growth of the economy. These issues must be taken care of and I am sure it will be sorted. As a bank, we do not have much risky exposure to the sector. Overall, in the industry also, Yes Bank has one of the lowest gross NPA (non-performing asset) levels.

You were among the first banks to deregulate interest rates for savings deposits. How is the response from customers so far?

RK: The response is great as the era of lazy banking has gone. Now is the time for active banking. India’s banking regulators took a huge step by deregulating the savings rate. There is so much scope for new products to be introduced. But how much it will affect our current accounts and savings accounts is difficult to comment at this time. That will only play out over a longer period of

time.

What kind of growth do you expect for your bank's retail banking operations?

RK: We are launching retail products every quarter and are very confident of growth. By 2015, retail operations will be our second-largest segment. By 2020, it will become the largest part of our portfolio.

At the WEF's panel discussion on financial innovation in the banking space, Kapoor also noted that innovation in bank must be encouraged but regulated. Otherwise, things could blow out of proportion, just as they did during the economic crisis of 2008.

"Let us go back to the first line of first chapter of banking regulations. We are public trust institutions. Being public trust institutions, we cannot gamble and must deliver the social cause as well," he said.

Kingfisher crisis will not impact our balance sheet: SBI

PTI Nov 14, 2011

Jamshedpur: The country's largest public sector lender State Bank of India has said the prevailing crisis in Kingfisher Airlines would not have any impact on its balance sheet due to small exposure to the beleagured company.

"We have Rs 12 lakh crore balance sheet and our exposure in Kingfisher Airline was small," SBI Managing Director (National Banking Group) A Krishna Kumar told reporters here, adding that the crisis would have no impact on SBI's performance.
Kingfisher

Banks, including SBI, ICICI Bank, IDBI Bank and Punjab National Bank, have an exposure of Rs 7,700 crore to the airline.

The airline has suffered a loss of Rs 1,027 crore in 2010-11 and has a mounting debt of Rs 7,057.08 crore.

The airline is currently facing troubled times and was led to cancel a number of flights due to factors like increased costs. The beleaguered airline has cancelled 210 flights since last Monday.

The airline has said that it has requested banks for a higher borrowing limit due to rising operating, costs caused by costlier fuel prices and rupee devaluation.

The airline had effected a loan recast earlier this year, wherein some banks were given certain equity stakes, but its debts are still estimated to be about Rs 7,000 crore.

On plans of raising interest rates on savings bank account, Kumar reiterated SBI Chairman Pratip Chaudhuri's views saying SBI has no plans to raise interest rate as of now.

"Though things are changing each day but as of now we have no plan to raise interest rate on savings account or loans," Kumar said.

Asked about the status of the Indian Banking sector in view of the prevailing slowdown in parts of the world, including the US, Kumar said our banking sector was "extremely strong and stable".

He also ruled out any possibility of liquidity crunch in near future as SBI has more Statutory Liquidity Ratio.

Kingfisher asked to give details on reconfiguration plans

PTI Nov 12, 2011

Ailing Kingfisher Airlines, which cancelled more than 160 flights over the last six days, has been asked by aviation regulator Directorate for Civil Aviation (DGCA) to give details of their plan to reconfigure its fleet to prevent a large-scale flight disruption.

Maintaining that it has received some "interim replies" from liquor baron Vijay Mallya-owned carrier, sources in the Directorate General of Civil Aviation said it was awaiting more details as it has been found that the airline was not operating flights as per the approved winter schedule.

Mallya, meanwhile, tweeted: "Every government has gone out of the way to support airlines and connectivity. In India airlines are overtaxed and overcharged. Wonder why?"

In another tweet, he posed: "Is it Kingfisher's duty 2 fly on loss making routes when state governments tax heavily? Or should v be financially prudent n fly profitably".

Kingfisher, which has been cancelling over 30 flights each day since Monday, had yesterday cancelled 40 services across its network.

DGCA, which issued a show-cause notice to Kingfisher in this regard, has also sent similar notices to IndiGo and SpiceJet and asked them to submit their cancellation details.

"When the schedule for winter was approved, it was with immediate effect. So we took a stock of the position and on that basis, we asked them to explain," DGCA chief E K Bharat Bhushan said.

He also warned that if the airlines were found not operating the slots allotted to them, these will be given to others who are willing to operate "regardless of who it is".

As its shares crashed to a record low amid continuing debt fears, beleaguered Kingfisher sought government's intervention to help it restructure its finances.

Chapter: 5

Bail out rumors

Kingfisher crisis: Govt denies bailout but help is on its way

FP Staff Nov 11, 2011

It is learned that Kingfisher Airlines chairman Vijay Mallya has spoken to the aviation ministry about bailing out the cash-strapped airline and the aviation ministry has, in turn, spoken to the finance ministry on the issue.

The finance minister is expected to speak to banks to provide the ailing airline with working-capital-loan, to keep itself afloat.

Aviation Minister Vayalar Ravi while speaking to the media said that Kingfisher Airlines Chairman, Vijay Mallya, had approached him over the following HPCL's refusal to give the airline anymore fuel on credit.

Sources at the aviation ministry said while an Air India-type recast is not possible for Kingfisher Airlines, oil companies might be asked to extend credit on fuel purchases to the airline.

All the state-run oil marketing companies – HPCL, IOC and BPCL – have denied extending credit line to the liquor baron Mallya-owned airline and asked it to pay for lifting jet fuel on a daily basis.

The airline has suffered a loss of Rs 1,027 crore in 2010-11 and has a mounting debt of Rs 7,057 crore. Voicing his concern over the issue Aviation Minister said that Kingfisher's woes aren't isolated and that the entire industry is facing a crisis because of higher rates of aviation fuel. The minister further added that he will request the states to look into the taxes levied by states on aviation fuel and that. Taxes on aviation fuel is a state subject and different states charge different rates of tax on aviation fuel.

Jet fuel taxes in India average about 24 percent, one of the highest in the world, according to some estimates.

The Directorate General of Civil Aviation (DGCA) has said Kingfisher is not operating 36 percent of its winter schedule flights, media reports said. It said Indigo and Spicejet also operated 30 percent fewer flights than scheduled.

The aviation regulator also said it may have to redistribute the vacant slots of Kingfisher, which could benefit Jet Airways. It added no concessions would be given to Kingfisher. In another development, the regulator said it would start financial surveillance of all airlines.

Kingfisher's shares are down 10 percent at around Rs 19.50.

Meanwhile Celebi Nas, the company that provides ground handling support to Kingfisher airlines has threatened to stop providing its services to the airline following non-payment of dues. Over the last one month over 100 pilots have quit Kingfisher airlines over non-payment of dues.

Watch Video

Kingfisher has not asked for bailout package: Vayalar Ravi

PTI Nov 14, 2011

Kochi: The crisis-ridden Kingfisher Airlines, promoted by Vijay Mallya, has not asked for any bailout package from the Centre, Civil Aviation Minister Vayalar Ravi said Sunday.

This has not come before my ministry, Ravi told reporters on the sidelines of a function here. “I have seen Mallya, but I cannot disclose what we had discussed,” he said.
Kingfisher

The Minister had on Saturday clarified in New Delhi that no such bailout package was pending before the government, nor has it been proposed by the Civil Aviation Ministry for Kingfisher Airlines.

On the issue of FDI in civil aviation, he said it cannot be decided in a day. “If the proposals come, then only can we consider it.”

Referring to the frisking of former President APJ Abdul Kalam in United States, Ravi said it was “unfortunate”. “Government had earlier taken up such issues. It is an insult to the nation,” he said.

When it was pointed out that the US has apologised for the incident, he said it is an admission that they have done a wrong thing.

Why Kingfisher Airlines is right in asking for a bailout

Arjun Parthasarathy *Nov 15, 2011*

The public indignation on Kingfisher Airlines asking for a bailout is unwarranted.

Firstpost.com's consensus is clear: Do not bail out Kingfisher. Newspapers, blog sites, comments on the net etc. are all about why the airlines should not be bailed out.

Let the market do its work, they say. Many have become personal, bringing the man behind Kingfisher Airlines, Vijay Mallya's flamboyant lifestyle, into focus.

Kingfisher

Kingfisher Airlines is deep in the red and does not have money to pay for aircraft fuel or its own staff and has cancelled flights due to the cash crunch. The company has approached the aviation ministry for help and this is causing the public outcry.

The markets have already punished Kingfisher. The market capitalisation of the company is down 78 percent over the past one year, and its shareholders have suffered for remaining invested in the company.

Its lenders, including large banks such as SBI and ICICI Bank, are assessing the impact of Kingfisher going bankrupt on their balance sheets and, by all indications, the impact is very minimal — at less than 0.15 percent of total assets.

The company can very well close down operations and declare bankruptcy and no one will be the worse for it except passengers who have booked their flights and will have to pay higher airfare to rebook them on other airlines.

Kingfisher's employees too will suffer as they will lose their jobs and not be paid their dues.

Presenting the case for a bailout

The question, is why should Kingfisher not be bailed out?

India and the world are living in an era of bailouts. India bailed out many sectors hit hard by the market collapse in 2008, including the financial sector.

The EU (European Union) is bailing out Greece, Ireland and Portugal as these countries are sinking under debts. The US bailed out banks and investment banks, as well as automakers in 2008. The UK bailed out banks and mortgage lenders in 2008 as well.

Kingfisher will be right in feeling that it's being made a scapegoat when everyone has been bailed out. Banks are continuously restructuring loans either of their own free will or due to pressure from politicians.

The Reserve Bank of India will never let any bank fail in this country as seen in the case of GTB (Global Trust Bank). Satyam Computer, when it declared its fraud, was not abandoned to sink. The government got involved and made sure that it got taken over.

If the government does not bail out Kingfisher, it should have a clear-cut policy of not bailing out any company that is in trouble. Then letting Kingfisher die will make sense.

However, letting Kingfisher die and then bailing out the next company in trouble that has close political connections will leave the public fuming.

Yes, bailouts are morally wrong in a free enterprise economy, but are economies really fully ready to let markets take their own course? Of course not.

Chapter: 6

The Mallya connection

Flying on empty: The good life of Vijay Mallya

Shiv Visvanathan Nov 14, 2011

Once in a while, there emerges a person who is a harbinger of a new trend. As an image, he becomes both archetype and stereotype, representing the original or classic essence of a persona and its consequent banalisation. One thinks of Amitabh Bachchan as the angry young man, Sunil Gavaskar as the unrepentant cricketing professional, Sam Pitroda as the diasporic technocrat dreaming new utopias for India. Such personae can emerge in any field from crime to industrial innovation. As role players, there is an equivalence between Dawood Ibrahim and Narayana Murthy. Both exemplify the innovative essence of their respective fields.

Vijay Mallya is another such invention. I am not too interested in his actual business acumen or the turbulence in his airline; I am interested in the presentation of his public self. Vijay Mallya is a post socialist creature. He lacks the timidity of old wealth and he refuses to apologise for it. He would rather be the unrepentant intelligent playboy. He sees wealth as an entitlement, a private life presented as a public good. He likes alcohol and calendar girls at least in calendars. His house has to be larger than 'life size', his life has to be larger than the usual life style even by the standards of the super rich. He presents himself as a commodity and behaves like one.

Now comes the crisis that has engulfed his airline. If this is his trial by fire, then Mallya is sticking to his guns. He sounds unashamed claiming that the pursuit of profit cannot always be a public good. In a moment of crisis he appears an unrepentant creature seeing his airline as one more scandal to be brushed aside.

In a sense, the Kingfisher crisis shows Mallya to be a virtual reality play. The real Indian reality play is not about power and aggression. It is about the machismo of consumption. Consumption constructs the person as a spectacle and Mallya's career is presented as a string of spectacles. He is not an original in the sense of a Howard Hughes or a JP Morgan. He is a more gossipy version constructed on a nukkad scale, a Stardust or Cine Blitz version of a millionaire who enjoys the cattiness around him and projects himself as a poster boy, a pin up for unashamed consumerism.

He is the playboy at 50+, almost obsessive about attention. If his own achievements cannot pro-

duce that sense of awe, then the spectacles he creates become the Viagra of his cocky self. The Kingfisher Calendar, the attempt to buy the sword of Tipu Sultan, membership of Parliament and the investment in F-1 creates a playboy for the world. Consumerism has to be conspicuous and inspire raw envy. This much he successfully does as he stands between Lara Dutta and Deepika Padukone. In that very act, he conveys cornucopia, a surplus in a true consumerist sense rather than passion and desire.

But now one senses an incompleteness about him, a sense of having arrived but not fully acclaimed. There appears a seedy coating or a vulgar tadka on what is a search for sophistication. He is not quite Ratan Tata or even Narayana Murthy. He does not seek to be correct or act as a fable of rectitude. He seems content that he makes it to Cine Blitz because Harvard Business Review seems too far away.

Now we suddenly see the ordinariness of Vijay Mallya. The man himself looks ordinary. He is a bit like his calendars, too self conscious, a trifle vulgar, a copy book imitation of some lost original. He looks like a droll caricature of the corporate class, a Gatsby of local comic books. What one misses is the sense of concern, of caring and a code of responsibility. He lacks the honour to apologise; becoming brash, or turning into a petulant schoolboy blaming government and oil prices for Kingfisher's crisis. The spectator wonders if he is durable or just a brittle, badly behaved pin up of this decade, a B-grade movie that has outrun its time.

In an odd sense, he is a colourless man with colourful extensions, a dream house, a yacht and beautiful women. Suddenly, the crisis of his airline becomes a metaphor of his life. It is not just his airline that appear bankrupt. Mallya as a fable of the good life appears empty. Creating brand names might be easy but possessing character is rare. As one obtains details of the battles between Param Uberoi of Pernod Ricard and Mallya, one realises it is Uberoi who is the winner and the better strategist. Uberoi lets his brands do the talking.

Sometimes, a company slogan might become an embarrassment, an obituary to its empty claims. I remember Union Carbide used to claim "Something we do will touch your life" and the Bhopal Gas disaster followed. As his debts mount, 'Live the Good Life' may prove to be equally ironic, a belated comment on Vijay Mallya and the Kingfisher story.

Vijay Mallya's Good Life isn't anyone else's business

Venky Vembu *Nov 16, 2011*

For some politicians and media commentators, the moral high ground is a perch too juicy to pass up. All life is a morality play, and as self-appointed arbiters of societal rectitude, they themselves bear the burden of cleansing its soul. And when anything out of the ordinary happens – when, for instance, a flamboyant businessman runs his airline to the ground – it's easy to see where the fault lies: in the babes and bimbettes the tycoon surrounds himself with.

Shiv Sena chief Bal Thackeray has claimed with obvious exaggeration that Kingfisher Airlines' sky-high pile of debt owes to "Vijay Mallya's flamboyant lifestyle." Pointing to Mallya's many businesses and his worldly possessions – all of which make for markers of the Good Life – the ascetic Thackeray observed snarkily that Mallya himself "does not know how much he spends on cheergirls during IPL matches."

Mallya's flamboyance and lifestyle are immaterial unless you can establish that he's been stripping away his business assets to subsidise his lavish lifestyle. AFP

Thackeray's other point — that Kingfisher Airlines is undeserving of a government bailout – is entirely valid. There is no earthly reason why taxpayers should pitch in to bail out the King of Good Times. But that argument in defence of sound economics is worth making in and of itself without lacing it with a morality strand.

And in fact, Thackeray's pitch that the government should "rather help Air India and pay more to its employees" dilutes even his economic argument subtantially: after all, if Kingfisher is unworthy of a government bailout, why should the taxpayer throw good money after bad on a sinking Air India?

A similar undercurrent of morality-laced snark characterises most media commentaries about Kingfisher Airlines. "He is the playboy at 50+, almost obsessive about attention," notes one commentary. "If his own achievements cannot produce that sense of awe, then the spectacles he creates become the Viagra of his cocky self."

Mallya the man himself may be in the hotseat today, but he refuses to be forced on the defensive about his fondness for the good things in life. Asked if his lifestyle made him a soft target for the media, since he was seen to have “squandered a lot of money on expensive toys”, Mallya – who was (somewhat uncharacteristically for him) dressed in a suit – said his current travails and his business downturn wouldn’t induce him to trade his suite for white khadi. “I am what I am, and I play straight and honest, transparently and openly.”

There are many grounds on which Mallya’s business acumen is open to criticism. But his flamboyance and lifestyle – or the babes and bimbettes he surrounds himself with – are immaterial unless you can establish that he’s been stripping away his business assets to subsidise his lavish lifestyle.

If that were the case, it wouldn’t matter one whit if Mallya were a vegetarian ascetic whose only indulgence is a daily dose of bisi-bela bath.

Equally, if he isn’t guilty of asset-stripping his companies, what Mallya does to promote his Good Times brand image – or even just indulge his playboy fancies – has no bearing on the merit of letting his airline sink or soar.

Sound economic and business decisions are by their very nature hard to take. Let’s not drown it with the gush of male hormones or of the thunderous hectoring of moral crusaders.

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